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IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

No. 208

TRANSPARENT-WRAP MACHINE CORPORATION,

Petitioner,

against

STOKES & SMITH COMPANY,

Respondent.

BRIEF FOR PETITIONER

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IN THE

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TRANSPARENT-WRAP MACHINE CORPORATION,

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against

STOKES & SMITH COMPANY,

Respondent.

BRIEF FOR PETITIONER

This case is here on a writ of certiorari to the Court of Appeals for the Second Circuit. The action was begun by respondent as an action for declaratory judgment to determine the legality and enforceability of a contract clause requiring assignment of improvement inventions (R. 2 *et seq.*). Petitioner joined issue and asserted a counterclaim for affirmative relief by reason of respondent's breach of that same clause (R. 6 *et seq.*). Respondent joined issue on the counterclaim alleging a defense of laches and estoppel (R. 13). Jurisdiction of the Federal Court is based on diversity of citizenship.

The United States District Court for the Southern District of New York, after trial, entered judgment for petitioner holding the clause legal and enforceable and ordering respondent to comply with it. The United States Circuit Court of Appeals for the Second Circuit, by a divided court, reversed and held the disputed clause to be illegal and unenforceable and the entire contract consequently not further binding on either party and remanded the case for further proceedings to determine the rights of the parties.

Opinions Below

The opinion of the Circuit Court of Appeals is reported in 156 F. 2d 198 and is printed in the record at page 312.

The opinion of the District Court is reported in 68 USPQ 28 and is printed in the record at page 295.

Jurisdiction

The jurisdiction of this Court is invoked under section 240 (a) of the Judicial Code as amended by the Act of February 13, 1925, c. 229 (28 U. S. Code, sec. 347). The judgment of the Circuit Court of Appeals for the Second Circuit, which petitioner seeks to have reviewed, was entered on May 1, 1946 (R. 324) and a timely petition for rehearing was denied on May 22, 1946 (R. 330).

Statement of Case

The contract and dispute arose out of the following circumstances:

In 1934, petitioner, Transparent-Wrap Machine Corporation, was organized to manufacture and sell a patented automatic machine which had been invented by Mr. Walter Zwoyer, one of the organizers. The machine made transparent packages and simultaneously filled them with candy or the like and sealed them, so that as the packages left the machine they were complete with contents, and the contents were readily visible. This machine was sold under the trade-mark "Transwrap" and was an immediate success awakening widespread demand throughout this country and abroad.

Respondent, Stokes & Smith Company, had for some years been an established manufacturer of wrapping and filling machinery, but made no machines for automatically

making packages of any kind and, of course, no machine of the "Transwrap" type. Some of respondent's filling machines, especially those adapted to fill packages with powders could, however, be advantageously used in conjunction with the "Transwrap" machine. Respondent was most anxious to add the "Transwrap" machine to its line of machines. In urging petitioner to sell the Transwrap business to it respondent emphasized that it had a better organization and facilities for manufacturing and marketing and, moreover, had an established research and development department in which it could undertake to improve the machine and increase its field of usefulness. Although petitioner was at first reluctant to sell, the discussions eventually culminated in the sale of the business to Stokes & Smith by the agreement of June 23, 1937 which is here in issue.

Under this agreement (Pltf. Exh. 1, R. 90 *et seq.*, off'd R. 20) Stokes & Smith acquired the entire Transwrap business (including tools, fixtures, completed machines, parts therefor and orders on hand) in the United States, Canada and Mexico together with authority to use the trade-mark "Transwrap" associated therewith (R. 46, fol. 137) and an exclusive license under any patents relating thereto that petitioner then owned or might in the future own. Petitioner contributed its experience and "know-how" and agreed to continue to help and advise. The business was to be operated for the joint benefit of petitioner and respondent; the agreement provided that payment to petitioner was to depend on respondent's sales of "Transwrap" machines and it was contemplated that a fixed amount per machine would from time to time be agreed upon, according to a formula which, after giving the respondent its normal manufacturing profit, divided the net profit equally (R. 92-3, fols. 276-7). The agreement also provided (R. 95, fol. 283) that respondent would use its best efforts to promote the business—this, of course, included improvement of the machine. The

term of the agreement was ten years with the option in respondent, if it did not want to end it then, to continue it indefinitely thereafter in 5 year periods. In the event that, during the term, respondent defaulted in any of its obligations and failed to remedy the default within 30 days after notice, the agreement could be terminated by petitioner upon a further notice specifying the date of termination. In the event of termination of the agreement, the entire business in the "Transwrap" machine was to return to petitioner, including such incidents of the business as tools, fixtures, completed machines, parts, and orders on hand (Pltf. Exh. 1, Pars. 8c and 8d, R. 97) as well as the "Transwrap" trade-mark (R. 46).

The provision of the agreement which respondent challenges as illegal, and which petitioner charges was breached by respondent, is Paragraph 12* providing that the improvements in the Transwrap machine to be made by respondent should be disclosed to petitioner so that, insofar as they were patentable, petitioner might patent them for the benefit of the business in the United States and foreign countries (in most of which respondent had no interest). The clause provided that if petitioner did not elect to patent them, respondent could patent them, but in any event respondent was protected by having full rights under them in carrying on the Transwrap business under the agreement. Also, irrespective of who patented them, if the improvements had any possible usefulness in respondent's other business, respondent was to have the exclusive right to use them in that other business and to license others to do so, and this was to be so regardless of whether it continued in the Transwrap business or not. Also in respondent's interest, the clause did not require any disclosure or transfer of improvements relating to respondent's normal business.

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* Paragraph 11 was also challenged by respondent, but it was held valid by the District Court and was not passed upon by the Circuit Court of Appeals.

The Paragraph reads (R. 100):

"12. If the Licensee shall discover or invent an improvement which is applicable to the Transwrap Packaging Machine and suitable for use in connection therewith and applicable to the making and closing of the package, but not to the filling nor to the contents of the package, it shall submit the same to the Licensor, which may, at its option, apply for Letters Patent covering the same. In the event of the failure of the Licensor so to apply for Letters Patent covering such additional improvements, inventions or patentable ideas, the Licensee may apply for the same. In the event that such additional Letters Patent are applied for and are granted to the Licensor, they shall be deemed covered by the terms of this License Agreement and may be used by the Licensee hereunder without any further consideration, license fee or royalty as above provided. In the event that any such additional improvements are patented by the Licensee for use in connection with Transwrap Packaging Machines (after the refusal or failure of the Licensor to apply for Patents thereon), the Licensor may, nevertheless, have the use but not the exclusive use of the same outside of the several territories covered by this License Agreement. The expenses of obtaining any such Patents shall be paid by the party applying therefor.

"The Licensor agrees to apply for and pay the expenses of obtaining any renewals of said Patents owned or acquired by it. The Licensee shall have the full right to use and enjoy any of the said inventions in its other machines which do not compete with Transwrap Packaging Machines and to license others so to do, but in such case the Licensee shall reimburse the Licensor for its cost in obtaining the Patents on said inventions on a basis to be agreed upon by the parties and if they fail to agree, the same shall be referred to arbitration as hereinafter provided."

The Dispute

The dispute arose out of the fact that in January of 1944, petitioner discovered that beginning only a few

months after the execution of the agreement, respondent filed a number of patent applications on improvements relating to the "Transwrap" machine without disclosing the inventions to petitioner and giving petitioner the opportunity to file patent applications in this country for the protection of the "Transwrap" business being conducted in their common interest by respondent and also for the protection of foreign business in which respondent had no interest. Four such patents taken out by respondent were cited to petitioner by the Patent Office in rejecting one of petitioner's applications for patent. Petitioner, thereupon, on January 22, 1944, notified respondent (R. 105) that respondent's failure to disclose these improvements constituted a breach of the agreement; and, inasmuch as the agreement provided a period of thirty days within which respondent might remedy its default, petitioner called upon respondent to assign these four patents and all other* similar patents and inventions which should have been disclosed under the provisions of the agreement.

Respondent, by letter, admitted** its breach and offered to submit a complete list of the inventions and patents so that the necessary assignments could be made (Deft. Exh. M, R. 287, off'd R. 60).

However, considerably more than thirty days went by and, as the assignments were not forthcoming, petitioner wrote (Pltf. Exh. 3, R. 107, off'd R. 20) that under the circumstances it believed the matter should be referred to

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* Up to the time of the trial, fourteen such inventions became known to petitioner and are referred to in the pleadings and discussed in the evidence.

** Respondent's president, Mr. Stokes, in this letter wrote,

> "We are in receipt of your notice of January 22nd and recognize that there are quite a number of patents which should have been assigned to your Company. We are getting a complete list and copies of the patents for your full information" (R. 287, fol. 860).

arbitration in accordance with Paragraph 16 of the agreement; additionally, in accordance with Paragraph 14 of the agreement, petitioner wrote respondent (Pltf. Exh. 4, R. 108, off'd R. 21) setting a day certain (May 10th, 1944) as the date of termination of the agreement because of the failure of respondent to remedy the breach.

Respondent replied, with opinion of counsel attached, again admitting* the breach and offering to make assignment of those patents which it believed came within the provisions of Paragraph 12 (Deft. Exh. N, R. 288, *et seq.*, off'd R. 61). In explanation of its delay and of its renewed admission of the breach, respondent stated that it had consulted additional counsel, "two prominent attorneys of long standing", who had advised it that at least some of the inventions came within the meaning of the clause and that, although the clause did not mention "assignment" of patents taken out erroneously by respondent, such patents should be assigned since the clause did require disclosure to petitioner with an opportunity to petitioner to take out patents.

At no time was there any suggestion by respondent or its counsel either in justification of respondent's failure to live up to its obligation or as a reason for refusing to remedy the default after notice, that the provisions of Paragraph 12 involved any hardship on respondent or that the obligation was considered by anyone to be either illegal or unenforceable.

Nonetheless, after this second admission of breach and without making any actual effort to remedy the breach and without any notice to petitioner, respondent filed the present complaint, asking that Paragraphs 11 and 12

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* In this letter respondent's president, Mr. Stokes, wrote,

"We have no excuses about this and can only apologize for the breach in not submitting these matters to you" (R. 289, fol. 867).

be declared illegal and unenforceable and also asking that petitioner be enjoined from terminating the agreement until after arbitration.* Petitioner, as stated earlier, joined issue and filed a counterclaim asking that the court order that the patents taken out in breach of the agreement be assigned and that the agreement be held terminated for failure to remedy the default after notice. Respondent joined issue alleging laches and estoppel**; and the case went to trial.

The trial court held (R. 295) that paragraphs 11 and 12 were valid and enforceable; that paragraph 12 had been breached by respondent; that the contract had terminated May 10, 1944 by virtue of due notice given by petitioner; that the claimed patents should be transferred to petitioner; and that respondent should disclose any additional inventions or patents coming within the limited language of Paragraph 12.

In so holding, the trial court found as fact that the parties were not and had not been in competition, and that none of the provisions of the contract either singly or together tended to monopolize any line of business or substantially lessen competition and held that the doctrines of the *Carbice* case[1] *Morton Salt*[2] case and *Ethyl Gasoline* case[3] did not apply. The court, after stating respondent's contention and the cases relied on, summarized its view as follows (R. 298-9, fols. 894-5):

> "All of these cases are obviously irrelevant to the plaintiff's [respondent's] claim. The licensee here enjoys the use of the patents, for this contract provides for its manufacture and sale of the machine

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* At the outset of the trial the Court held that respondent had waived its right to arbitrate.

** The trial court found the facts against respondent on this defense and it was not urged on appeal.

[1] *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27 (1931).

[2] *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488 (1942).

[3] *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436 (1940).

embodying all the improvements. It enjoys the right to use them on any machine it makes as well as the Trans-Wrap machine. No limitation of commerce in it is insinuated—on the contrary any effort of the licensee less than its best, to manufacture, market, promote sales and sell machines breaches the contract. The royalty may accommodate market conditions and costs and competition as well. The licensee continues to enjoy its use of the patents for improvements with extensions of the contract at its option. When the agreement terminates within its present time limit, licensor is in a secure position to continue the manufacture and sale of an up-to-date saleable machine embodying the improvements where, without his right to patented improvements, he would own an unsatisfactory machine and neither party could satisfy the trade. We are unable, therefore to find anything any more objectionable in the defendant's ownership of a patent or patents, the manufacture under which is provided for in the contract, than there would be in the plaintiff's ownership of it or them. The complaint is dismissed."

The Court of Appeals did not differ with the trial court on the facts, but the majority (Judge Swan dissenting) held that, as a matter of law, Paragraph 12 was illegal and unenforceable under the novel doctrine that an agreement to disclose and assign improvement inventions, which is legal in itself, becomes illegal if a patent license is part consideration therefor. The majority thought this to be an application of or consequence of the doctrine of the *Carbice* and other cases, the most recent of which are the *Mercoid*[1] cases, which hold that a patent will not be enforced if it is used in an attempt to secure an illegal monopoly of an unpatented material.

This holding of illegality by the majority was not based on the view that the patent owner was using his patent

[1] *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661 (1944); *Mercoid Corp.* v. *Honeywell Co.*, 320 U. S. 680 (1944).

to accomplish a result which was in and of itself illegal, as was true in all of the *Carbice* line of cases (the acquisition of improvement patents being clearly legal). On the contrary, it was based on the view that, under the doctrine of those cases, patents are not subject to the same rules as other property and that it is illegal to accomplish by means of an agreement including a patent license results which are in themselves legal and which would be upheld if accomplished otherwise. The Court held (R. 320):

> "It is quite true that upon the sale of its business, *had the defendant not included those* [*its*] ***patents****, it could have made it a condition that the plaintiff should assign to it any improvement inventions it might make, and in that way it would have secured the plaintiff as its customer for all such improvements. The owner of all property, by withholding it upon any other terms, may, if he can, force others to buy from him; land is the best example and every parcel of land is a monopoly. But it is precisely in this that a patent is not like other property; the patentee may not use it to force others to buy of him things outside its four corners. If the defendant gets the plaintiff's patents, it will have put itself in that position, in part at any rate, by virtue of the compulsion of its own patents."

In establishing this unprecedented doctrine of far-reaching consequences, the Court of Appeals not only misconstrued the doctrine of the so-called *Carbice* cases, as we shall show, but held directly contrary to the ruling of the Seventh Circuit Court of Appeals in a precisely similar situation in the *Allbright-Nell* case[1] and, moreover, reached a result directly contrary to that reached by this Court in the *Hartford-Empire* case.[2] That this holding

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* Italics ours throughout this brief unless otherwise noted.

[1] *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392 (C. C. A. 7).

[2] *Hartford-Empire Co. et al.* v. *U. S.*, 323 U. S. 386.

was contrary to the Seventh Circuit decision is made explicit by Judge Swan in his dissenting opinion (R. 323):

> "If the seller had no patent when he sold his business, a stipulation that patents thereafter taken out by the buyer in connection with the business should be assigned to the seller if the business was returned to him pursuant to the terms of the agreement, would in my opinion be valid—and my brother's argument does not suggest the contrary. The situation would seem to be analogous to requiring an employee to assign inventions made in the course of his employment. *Guth* v. *Minnesota Mining & Mfg. Co.*, 72 F. 2d 385 (C. C. A. 7), cert, den. 294 U. S. 711. Even if the seller of the business owned a patent under which the buyer received a license, a stipulation that any improvement patents should belong to the licensor would formerly have been sustained. See *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392 (C. C. A. 7)."

In the *Hartford-Empire* case, this Court recognized that a provision for the acquisition of improvement inventions was of itself quite proper and legal as a condition in a patent license although, even in a patent license, it was illegal to use it as an instrument for violating, or an incident to a scheme for violating, the anti-trust laws. The *Hartford-Empire* case was not referred to by the Court of Appeals, but its holding was specifically called to the Court's attention by the petition for rehearing (R. 330) which was denied without opinion.

We note in completing the statement of the case, that the Court of Appeals, having reached the view that respondent was entitled to repudiate one of the essential promises by means of which it secured the business and coincident license, declined to hold, as we believe it should as a matter of law and simple justice have held, that the license was at an end and that the business should be restored to petitioner.

Questions Presented

1. Does an otherwise legal agreement for the sale of a business in the manufacture and sale of a patented machine, under which the business may revert to the vendor and under which buyer agrees to transfer to vendor improvement inventions which the buyer may make in the machine, contravene public policy as an improper exercise of the patent monopoly under the doctrine announced by this Court in *Mercoid Corporation* v. *Mid-Continent Co.*, 320 U. S. 661, and the decisions there cited, because as a part of the consideration the vendor grants the buyer an exclusive license to practice the inventions of vendor's patents in connection with the business?

2. Is an otherwise legal contract for the assignment of improvements of a patented machine rendered illegal because part of the consideration therefor is the grant of a license to make the patented machine?

3. Can a buyer who acquires a business in a patented machine under promise to use his best efforts in the common interest and to disclose and assign improvement inventions to the seller under agreement that the business will revert to the seller in the event of breach, repudiate his promise to disclose improvements on the ground that the promise is a condition on a patent license and thereafter retain the business and the license?

Specification of Errors

The Circuit Court of Appeals for the Second Circuit erred:

1. In construing the doctrine set forth by this Court in the *Mercoid* cases, and cases there cited as having application to the facts of the case at bar, and in, therefore, holding Paragraph 12 of the contract illegal and unenforceable.

2. In failing to apply the rule applied by the 7th Circuit Court of Appeals in the *Allbright-Nell* case and consequently in not requiring respondent to comply with its obligations under Paragraph 12 of the contract.

3. In holding that the obligations of Paragraph 12 of the contract became illegal and unenforceable because part of the consideration for the contract was the grant of a patent license by petitioner to respondent.

4. In failing to hold that if Paragraph 12 was unenforceable, the license granted to respondent thereupon terminated.

5, In failing to hold that if Paragraph 12 of the contract was unenforceable, the business in the patented machine should thereupon revert to petitioner.

6. In reversing the judgment of the District Court and holding the respondent free from its obligations to assign improvement inventions.

ARGUMENT

I

The provisions in the present agreement requiring disclosure and assignment of improvements were appropriate to the business transaction involved. The transaction was essentially a private one and, to the extent that the public interest might be thought to be in any way affected, the provisions were beneficial in that they provided for improvement of the machine and insured that the public would have the combined benefits of the improvement and underlying inventions.

The business transaction was a transfer of the Transwrap business from petitioner to respondent with provisions for its operation and expansion for their joint benefit for ten years and for its return at the end of that time to petitioner unless, under the terms of the agreement, respondent elected to continue for further periods. The petitioner and respondent were not in competition and the agreement had no effect to restrain competition or trade—on the contrary the purpose was to expand the business and introduce the machine even more widely into use.

The petitioner was a small newly formed company whose only business was the manufacture and sale of this wholly new type of machine—a machine for automatically making filled transparent packages. Respondent was an old established company, but its machines were for wrapping or filling packages—it had never made any machines of the Transwrap type or, in fact, any machine for making packages. The sale of the business to respondent was induced by respondent's ability to supply a larger manufacturing and marketing organization having research

facilities for making improvements and for thus increasing the field of usefulness of the machine.*

It was agreed that respondent would operate the business for their joint benefit using its best efforts to promote the business and that petitioner would cooperate by giving respondent the benefit of its experience, supplying "know-how", etc. It was contemplated that the parties would from time to time agree on a fixed amount per machine to be paid to petitioner as its share of the profits to be determined by a formula (Pltf. Exh. 1, R. 92-3, fols. 276-7) which, after making full allowance for cost and respondent's normal manufacturing profit, divided the net profit 50-50. Provisions (Pltf. Exh. 1, Par. 14, R. 101) were included to protect petitioner against default by respondent and, since the agreement was personal in nature, to guard against liquidation or effective transfer of the business to

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* This is made clear in letters from Mr. Stokes, respondent's president, repeatedly urging Transwrap to turn over the business to them (Deft. Exhs. F-1 and F-2, R. 273-278, off'd. R. 62). For example, in Exh. F-1, Mr. Stokes says:

"Of course your machine, in a general way, is in the same class with the machines we have been building since we started business, and our shop, in consequence, is adequately equipped for this work. We have developed so many new and original machines that *we have a highly trained experimental staff who would be available for developing your ideas in the fullest extent. I am sorry I neglected to show you our research room on the second floor, where behind closed doors a lot of our developments are taking place.*

"Our wide experience in the building of filling machines which would be incorporated in your machine, and our familiarity with this field I think are also points in our favor. Note the great variety of products we are handling, many of which are itemized on the enclosed list (R. 273-4, fols. 819-20).

* * * * * *

"I am sending herewith some of our recent publications to give you an idea of our methods of backing up our selling organization, which we feel very effectively cover every section of this country and are well backed up by our service men" (R. 274, fol. 821).

someone else by bankruptcy or reorganization proceedings. In the event of termination of the agreement within the ten year period, it was agreed that petitioner would pay for the returned tools, drawings, etc.

It was not only appropriate but necessary for the protection of the business that improvements be disclosed and opportunity be given to patent them. Insofar as respondent was concerned, it made no difference, of course, whether the patents were taken out by it or by petitioner because, in either event, under the agreement respondent had the exclusive right to use them as long as it conducted the business and, at the end of the agreement, they would naturally be turned over to petitioner as one of the adjuncts and assets of the business necessary in order to continue to make the latest improved form of machine and to secure the protection for the business that they were intended to give.* As far as petitioner was concerned, however, it was important that it be in a position to take out the patents. Among other things, petitioner had corresponding business in foreign countries (R. 28, fol. 83) in which respondent had no interest; for the protection of this business it would be important to take out patents in those foreign countries, and, under the International Convention, to correlate their prosecution with that of the United States patents. Moreover, since the inventions were to be improvements relating to the original Transwrap machine, it would be advantageous to have the

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*Respondent, who represented that in promoting the business it would improve the machine and thus expand its field of usefulness and who had the conduct of the business placed in its hands because of petitioner's reliance thereon, would not be allowed to violate this trust and injure petitioner and the business by keeping the improvements for itself. Under equitable doctrines, respondent would be called upon to turn over the patents whether there was an express agreement or not. *National Etc. Co.* v. *Healy*, 189 Fed. 49 (C. C. A. 7th, 1911); *Baker Oil Tools* v. *Burch*, 71 F. 2d 31 (C. C. A. 10th, 1934); *Saco-Lowell Shops* v. *Reynolds*, 141 F. 2d 587, 597, 598 (C. C. A. 4th, 1944).

patents prosecuted by petitioner's attorneys who took out the original Zwoyer patents. Also, being faced with the fact that the agreement might be terminated in 10 years or perhaps sooner and that petitioner would then have the business back with its incident patents, petitioner would want to have its attorneys prosecute the applications in the Patent Office so that it would be satisfied that the resulting patents would be free of defects and would adequately protect the improvements that they were supposed to cover.

Paragraph 12 carefully protected not only petitioner's and respondent's interests in the business but also petitioner's interest in foreign fields, as well as petitioner's interest in the eventual return of the United States business and respondent's interest in its other business. Petitioner was to be given the opportunity to patent the improvements and if it elected not to, respondent was to be free to do so. This applied only to improvements relating to the Transwrap machine; it did not include those relating to the filling operation which was part of respondent's preexisting business or those relating to the contents of the packages since these formed no part of the Transwrap business. It was further provided that if any of the improvements relating to the Transwrap machine *also* had some incidental use in respondent's other business, respondent was to have full right to make use of them in its other business without royalty whether it continued in the Transwrap business or not and moreover was to have the full right to license others to make such use of them. Further it was specifically recognized in this Paragraph and Paragraph 11 that all such inventions and all other inventions owned by petitioner relating to the Transwrap business whether originating with respondent or petitioner were to be included in the agreement at no extra charge.

Viewed as a private transaction, there is, of course, no hardship on respondent in this arrangement and it has never suggested there was any. The agreement was not

only freely made but was made at the insistence of respondent.* When it was breached there was no suggestion of hardship; nor, when the breach was called to respondent's attention and admitted, was there any suggestion of hardship. Respondent was completely protected in its other business at all times and was also completely protected in the Transwrap business as long as it continued in it. Moreover, the opportunity and incentive for respondent to make improvements of the Transwrap machine arose solely because petitioner put respondent in the business and they were made for the benefit of the business. The fact that respondent would not be free to use these inventions after it turned the business back would be no hardship but only fair dealing—a mere incident to turning the business back. Even in that event, it would be free to use them without charge in its *other* business if they applied to that other business. The fact that, if it continued in the Transwrap business, respondent would have to continue to divide the net profits with petitioner as long as it sold the Transwrap machines with the patented improvements is no hardship—these continuing payments are the only payments made to petitioner in connection with the transfer of the business, and it should be noted, are payments made *after* provision for normal manufacturing profit to respondent. Such payments would be made only if, and only as long as, there were improvement patents. This is more advantageous to respondent than the unlimited continuing division of profits which would result if the business had been transferred to a corporation in which each owned shares—a common procedure.

It was said by the majority of the court below that the agreement was the result of the "compulsion of its own [petitioner's] patents" but it is hard to see why it is due to the compulsion of patents any more than the com-

* *See* letters from Mr. Stokes, Deft. Exhs. F-1 and F-2, R. 273-8, off'd. R. 62.

pulsion of the trade-mark "Transwrap" or the compulsion of the orders on hand, or the compulsion of the existing dies, tools and drawings or existing good will and "know-how". The simple fact is that the transaction was a joint venture for the operation of a business and the patents were an adjunct of that business. It was not the case in which the monopoly of a patent was exercised to secure a monopoly of unpatented materials or in any way to violate public policy. To the extent that the patents were to be used at all, they were to be used solely to protect the patented machine and the agreement (Par. 9, R. 97-8) contemplated that if infringement occurred both petitioner and respondent would join in the suit as might be required (see folio 292). Petitioner had never sued or threatened to sue respondent or any one else. The negotiations were initiated by respondent, not petitioner, and were initiated as a request that respondent be allowed to sell Transwrap machines in order to fill out its line* and continued because of respondent's insistence.** It was only after the negotiations had proceeded for some time at respondent's insistence that petitioner was persuaded

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* *See* Exhibits C and D, R. 270-1; off'd. R. 29-30.

** Under date of March 20, 1936, Mr. Stokes wrote (Deft. Exh. F-1, R. 273; off'd. R. 65):

> "We enjoyed your visit with Mr. Zwoyer very much and certainly are great believers in your machine and its wide possibilities for the future. As a suitor for your hand it is rather a sporting proposition to see whether we can win your confidence against our rivals."

Under date of May 25, 1936, Mr. Stokes wrote (Deft. Exh. F-2, R. 278; off'd. R. 65.)

> "Of course we all regret very much your decision regarding your machine, that you have communicated to us in your letter of May 20th. Personally I have been very much interested in it as I firmly believe in its possibilities for a wider field of usefulness than has yet been suggested.
>
> Perhaps the time will come later when the matter can be reconsidered."

to transfer the business to respondent, relying on respondent's representations and undertakings (R. 65-6). There was no element of compulsion.

Viewed in the public interest, it is hard to see that this private transaction presents any public interest sufficient to require consideration. There was no intention, and could be no result, to restrain competition or trade. Quite the opposite, it was thought that with respondent's established manufacturing, selling and servicing organization, respondent was better qualified to conduct the business, presumably giving the public the best article in adequate quantities and at the lowest manufacturing cost. Further it was thought that respondent with its established research organization could best improve the machine and increase its field of usefulness. That this was both the intention and the result, there is no doubt—and it has not been questioned. Moreover, to separate the improvement patents from the business, would be contrary to the public's interest because in that event neither the petitioner nor the respondent could make the improved machine. The Court below suggested that the agreement tended to stifle the incentive to invent and hence was contrary to the incentive of the patent system—but the opposite is the fact: not only did this agreement give respondent the opportunity to experiment with and improve the machine which it would not otherwise have but, having a large share in the profits, it had a strong incentive to do so. Further, it was under obligation to do so by virtue of its representations that it had facilities for improving the machine and its specific undertaking to use its best efforts in promotion of the business. And, *moreover; it did invent*—over 14 patents* resulted and fill over 100 pages of the record (R. 109-232)—whereas in the same period Zwoyer secured only one (R. 69; fol. 202). This agreement can

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* Petitioner learned of some further patents only at the trial and hence they are not in the record (*see* R. 86, fol. 257).

no more be regarded as tending to stifle invention than can ordinary employment agreements for the making and assignment of inventions.

The District Court found nothing contrary to the public interest—nor did the majority or minority of the Court of Appeals.

The District Court found (R. 295) as a fact:

> "1. Before June 23, 1937, the date of the contract plaintiff and defendant were not competitors. The machine covered by the defendant's patents did not compete with any machine then being manufactured by the plaintiff. The acquisition of the license by the plaintiff enabled it to fill a void in its line of manufactured machines. None of the provisions of the contract either singly or in company with an other or with others tends to monopolize any line of business or substantially to lessen competition."

and in its opinion held (R. 298):

> "The licensee here enjoys the use of the patents for this contract provides for its manufacture and sale of the machine embodying all the improvements. It enjoys the right to use them on any machine it makes as well as the Trans-Wrap machine. No limitation of commerce in it is insinuated—on the contrary any effort of the licensee less than its best, to manufacture, market, promote sales and sell machines breaches the contract. The royalty may accommodate market conditions and costs and competition as well. The licensee continues to enjoy its use of the patents for improvements with extensions of the contract at its option. When the agreement terminates within its present time limit, licensor is in a secure position to continue the manufacture and sale of an up-to-date saleable machine embodying the improvements where, without his right to patented improvements, he would own an unsatisfactory machine and neither party could satisfy the trade. We are unable therefore to find anything any more objectionable in the defendant's ownership of a patent or patents, the manufacture under which is provided for in the contract, than there would

be in the plaintiff's ownership of it or them. The complaint is dismissed."

The dissenting opinion in the Court of Appeals said (R. 322-3):

> "When a man sells his business on terms which make it possible that he may have to buy it back, it seems to me entirely reasonable for him to require the purchaser in that event to turn over any improvement patents which have been taken out in the meantime. If the seller had no patent when he sold his business, a stipulation that patents thereafter taken out by the buyer in connection with the business should be assigned to the seller if the business was returned to him pursuant to the terms of the agreement, would in my opinion be valid—and my brother's argument does not suggest the contrary. The situation would seem to be analogous to requiring an employee to assign inventions made in the course of his employment. *Guth* v. *Minnesota Mining & Mfg. Co.*, 72 F. 2d 385 (C. C. A. 7), cert. den. 294 U. S. 711."

The majority view of the Court of Appeals was based wholly on its view that the agreement, otherwise legal, became illegal merely because petitioner included in the agreement a license under its existing patents.

The majority opinion of the Court of Appeals held (R. 320):

> "It is quite true that upon the sale of its business, *had the defendant not included those patents*, it could have made it a condition that the plaintiff should assign to it any improvement inventions it might make, and in that way it would have secured the plaintiff as its customer for all such improvements. * * * *But it is precisely in this that a patent is not like other property;* * * *."*

This startling doctrine, with its far reaching consequences upsetting the settled law and extensive property rights based thereon, finds no support in the decided cases and is based, we think, on a mistaken view of the

holdings in the *Carbice* line of cases. Such a doctrine would forbid the acquisition of patents in any reasonable business transaction if another patent was part consideration. Neither the *Carbice* cases nor any others, hold that patent property is to be subject to less favorable rules than other property or that agreements otherwise legal become illegal merely because they include a patent license (*post*, p. 33 *et seq.*).

Such a doctrine is contrary to the settled law and, as we shall show in our next point, the courts, in decisions throughout a long period of years, the most recent of which is the *Hartford-Empire* decision of this Court, have had occasion to consider undertakings in patent licenses whereby licensee agreed to assign improvements and have never held them illegal *per se* or illegal because contained in a patent license; on the contrary they have enforced them. At the same time, as illustrated by the *Hartford-Empire* case, they have been quick to hold such an obligation, *or any obligation*, illegal if it was used as an instrument to defeat public policy or violate the law.

II

Agreements to disclose and assign improvement inventions as conditions in patent licenses have been approved and enforced by the Courts for many years.

Although the *Hartford-Empire* case is the most recent one on the point, long prior to that case it had been widely recognized by the courts that it was appropriate and proper to include in patent licenses a requirement that the licensee assign improvements to the licensor. In fact, in the usual case, its propriety was not questioned and few of the decided cases even discuss its legality.*

* Such clauses have been so widely regarded as valid that they are included in form books. *See* Gordon's "Modern Annotated Forms of Agreement" (1945), p. 737, par. 3; also 1932 Edition, p. 674, and Zabel, "The Patent Royalty Contract" (1933), p. 184, par. 8.

In the early case of *Bunker* v. *Stevens*, 26 Fed. 245 (1885) the patentee granted to Stevens a one-year license to make and sell the patented article sufficiently to test its salability and an option to purchase the patent at any time within the year at a stipulated price. Stevens agreed to immediately manufacture a sufficient number of patented devices to test salability, to pay royalty for every device exceeding 500, and, if he did not purchase the patent within a year, to cease manufacture, turn over all patterns, and assign, "the entire right, title, and interest in any and all improvements upon the invention shown and described in said letters patent, or relating thereto, which he might make or patent." There was no suggestion of illegality of such a provision and the case was decided on the ground that the claimed inventions were not within the limited language of the contract.

In the later case of *American Refining Co.* v. *Gasoline Products Co.*, 294 S. W. 967 (Court of Civil Appeals of Texas, 1927) various obligations of a licensee, including the obligation to assign improvement inventions, were sought to be avoided by the licensee on the allegation that the agreement was invalid because the licensor was engaged with others in a conspiracy to restrain trade and the contract "constituted a link in a chain of proceedings which were intended and had the effect to create a monopoly and to restrain interstate commerce" (294 S. W. at 969). The Court held the contract to be untainted by the alleged conspiracy to restrain trade and after considering its validity apart from the alleged conspiracy held it valid.* In so holding the Court distinguished from an earlier Massachusetts case (*United Shoe Machinery Co.* v. *LaChappelle*, 212 Mass. 467) holding an employ-

* A similar license contract was upheld in *Gasoline Products Co. v. Champlin Refining Co.*, 46 F. 2d 511 (D. C., D. Me., S. D., 1931), citing the Texas case with approval without discussing the provision relating to assignment of improvements.

ment agreement invalid on the ground it was "a necessary link in a chain of contracts essential to the maintenance and preservation of monopoly in interstate trade which had been established by [United Shoe Machinery Company] the plaintiff." In that case the employment agreement required assignment of all inventions made within a period of ten years *after the employment ended* and for a like period required the employee not to engage in a similar business. The Massachusetts court, as quoted by the Texas court page 971, said:

> "'The provision of the contract here sought to be enforced that for 10 years after its termination every invention shall be assigned to the plaintiff savors of restraint of trade. It projects itself so far beyond the period of actual employment and payment of wages that it appears primarily to be in aid of the unlawful combination. It would choke the inventive capacity of the defendant for a period so long after his employment ceased that his usefulness to himself or to any competitor would be extinguished in most instances. When this contract is multiplied by substantially all like inventors in the country, its character as aiding the combination is too clear to require further discussion.'"

The Texas court in distinguishing said (p. 974):

> "* * * it is to be observed that the contract before us is distinguishable, in that here the obligation of the lessee to assign improvements, etc., did not continue beyond the continuance of the contract which the lessee at any time might terminate after giving 60 days' notice of his desire to do so, and we do not feel prepared to say that such a provision is within itself invalid or that its observance immediately and directly promotes the purpose of the unlawful combination or affects interstate commerce."

In 1934, the Court of Appeals for the Seventh Circuit in the case of *Allbright-Nell Co.* v. *Stanley Hiller Co.*, enforced a provision for assignment of improvements in

a case on all fours with the present case. The legality of such an obligation was not even questioned by the Court or counsel in that case and this is particularly noteworthy because that very court had, only a few months before, in *American Equipment Co.* v. *Tuthill*, 69 F. 2d 406 (C. C. A. 7, 1934) considered and applied the doctrine of the *Carbice* case that a patent may not be used to secure a monopoly of unpatented articles and had, less than one month before, in *Guth* v. *Minnesota Mining & Mfg. Co.*, 72 F. 2d 385 (C. C. A. 7, 1934) exhaustively reviewed the decided cases and principles relating to the legality of, and public policy underlying, contracts to assign improvement inventions.

The similarity of the *Allbright-Nell* case to the instant case is striking. In that case, as here, the licensor turned over its entire business to the licensee, turning over among other things the patterns, dies, drawings, blueprints and other data, and additionally, the president of the licensor company aided the licensee in getting the machine ready for the market. The licensee had an exclusive right to manufacture and sell for a period of ten years as here, and, also as here, the contract contained a clause providing for assignment of improvements. The clause read as follows:

> "All improvements and changes in designs, in the apparatus, machinery or equipments herein dealt with, whether patented or not, shall belong to First Party (Appellee) [namely, the licensor]."

The licensee acquired ownership of an improvement patent by assignment from one of its employees and the Court held:

> "Clearly under the terms of the contract appellee [licensor] was entitled to the assignment of appellant's interest in this patent, and the court properly ordered appellant to execute the assignment." 72 F. 2d 392, 394.

Another case in which the holding is particularly significant, and to which we have previously referred, is the case of *Baker Oil Tools, Inc.* v. *Burch*, 71 F. 2d 31 (1934), in which the Circuit Court of Appeals for the Tenth Circuit *implied an obligation to assign improvement inventions as a matter of equity** even though there was no express agreement to that effect. The Court said (pp. 36-7):

> "It must be remembered that *we have here more than the ordinary license contract.* That contract was but a part of the agreement made. National Wire Bound Box Co. v. Healy (C. C. A. 7), 189 F. 49, 57. Before Burch dealt with Mr. Baker at all, and at the time he disclosed his drawings and models, he stated he would deal with no one who would not agree to develop the device, 'get the bugs out of it' by experiment. With that statement, the license agreement was entered into. An implied, if not express, promise was thereby made to develop the idea.
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> * * * * * * * * * *
>
> "In equity and good conscience, Burch is entitled to any protection afforded by Baker patent, 1,748,007. * * * the confidence and trust reposed in Baker and its patent counsel by Burch, Baker's acceptance thereof, and the agreement then made to improve the device, later carried out, created a fiduciary relationship between them.—On well settled principles, Baker cannot turn that relationship to its personal profit by an appropriation of the fruits of the relationship. Concealing the appropriation from Burch does not confirm its title. This fundamental rule of equity and good conscience has been applied to patents" (citing authorities).

In 1938, in *Sinclair Refining Co.* v. *Jenkins Petroleum Process Co.*, 99 F. 2d 9, the Court of Appeals for the First Circuit ordered a new trial (the third)* of a claim arising out of an agreement by Sinclair to assign improvement inventions to Jenkins, the owner of the basic invention, who

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* To the same effect: *Saco-Lowell Shops* v. *Reynolds*, 141 F. 2d 587, 598 (C. C. A. 4th, 1944).

had permitted Sinclair for a limited period to test and experiment with the apparatus which Jenkins had built. The legality of the contract was not questioned* although the court referred (p. 11) to "astute and experienced counsel on both sides, by whom every point involving a question of law was strenuously contested * * *."

The novel holding of the majority of the Court of Appeals in the instant case is brought into striking relief when applied to the facts of the *Sinclair* case. Inasmuch as the agreement to assign improvements was in that case a condition upon the transfer of physical property, the majority of the court below would have sustained it as legal under the ruling now on review whereas, under the same ruling, if a patent license had been included, they would have held it invalid. We know of no doctrine in the decided cases which justifies such a view.

The recent anti-trust case (1945) of *United States* v. *Parker-Rust-Proof Co.*, 61 F. Supp. 805 (District Court for the Eastern District of Michigan, Judge Lederle) is of special interest because in that case the Court, having in mind the anti-trust laws and the doctrine that a patent owner

> "* * * may enter into any kind of a contract to protect these rights so long as he does not attach a condition to the contract which will have the effect of enlarging his monopoly beyond that covered by the patent." (p. 812)

distinguished between illegal and legal acquisition of improvement inventions by a patent owner. The Court held illegal one agreement for acquisition of inventions because it (p. 811)

> "was intended to eliminate American as a competitor and it had that result."

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* We note in passing that the Supreme Court later had occasion to sustain a bill of discovery in aid of this third action at law (*Sinclair Refining Co.* v. *Jenkins Petroleum Co.*, 289 U. S. 689) but again the legality of the agreement was assumed by both Court and counsel.

At the same time it declined to hold illegal another agreement for acquisition of patents because the agreement did not stifle competition or restrain trade. The Court said (pp. 811-812):

> "Curtin-Howe never offered any substantial competition to Parker and the purchase of Curtin-Howe patent rights was a legitimate exercise of its rights to purchase."

This unbroken history of over 60 years recognizing and enforcing agreements by licensees to assign improvement inventions is not only confirmed but is clarified in its relation to anti-trust policy by the decision of this Court in the *Hartford-Empire* case. In that case the question came before the Court in the following manner:

The Hartford-Empire Company was found guilty of violation of the anti-trust laws by methods which included acquisition and concentration of diverse patents and improvement patents and the granting of leases and licenses thereunder containing terms and conditions which tended to strengthen and perpetuate the concentration of patent monopolies. As a consequence it was subjected by the District Court to numerous restraints on its future activities; one of these restraints was an injunction against including in *any* of its existing or future patent licenses, a requirement that the licensee assign improvement inventions to licensor (Par. 29e of that decree).* Upon appeal to this Court, this provision was separately and specifically attacked, and the matter was argued in the briefs for both sides. The brief** for Hartford Empire and the other defendants stated concerning Par. 29d and 29e (p. 129), with citation of authority:

> "The condemned provisions are lawful. If they should be used in an unlawful way, the unlawful use

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* Par. 29e, as set forth at p. 423 of this Court's opinion, "provides that rights to improvements and inventions covering licensed machinery or processes or methods shall become the exclusive property of the lessor or vendor".

** "Joint Brief For Appellants On Reargument."

alone should be condemned, not the provisions themselves."

The Government brief recognized that such provisions are legal *per se* but contended that under special circumstances as in that case they should be condemned. Concerning Par. 29e it stated (pp. 377-8)*

> "Whatever may be the law with respect to contracts for the acquisition of improvement patents generally, *the employment of such agreements in support of an illegal licensing system, as here,* is in direct contravention of the constitutional purpose 'to promote the progress of science and useful arts.'"

On reargument, the Government, still recognizing that such agreements are legal *per se* and that only the special circumstances of the case justified enjoining their use, conceded that the injunction went beyond the field illegally monopolized and that it extended to fields where there was no reason to give such agreements anything other than their normal legal effect. In its brief it said (pp. 153-4)**

> "Paragraph 29, as it now stands, applies to products other than glassware. Although, for the reasons set forth at pp. 379-380 of the Government's main brief, we think this provision justifiable, particularly as applied to products other than glassware that can be made on glass-making machinery, *we do not object to having the paragraph confined to glassware, glass-making machinery, and patents pertaining thereto, as defined in paragraph 1 of the judgment.*"

This Court thereupon modified the injunction to limit it to the field in which Hartford-Empire had built up its illegal monopoly and thus left Hartford-Empire and the other companies free to include such provisions in license agreements in other fields. The Court said, 323 U. S. 386, 424:

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* "Brief For The United States."

** "Brief For The United States On Reargument."

"Paragraph 29 should be amended *to permit any appellant, corporate or individual, to retain and refuse to license, to use and refuse to license, or to license with restrictions, any patent hereafter applied for or acquired except* those applicable to feeders, formers, stackers and lehrs and processes and methods applicable thereto."

The minority disagreed with the limits of the field to which the injunction was thus applied and would have made the field somewhat broader because of the nature of Hartford-Empire's illegal activities (p. 452). However, it agreed with the majority that in all other fields the clause was an appropriate one to include in patent licenses.

Both majority and minority thus correctly and expressly recognized the legality *per se* in license agreements of provisions for assignment of improvement inventions.

When this decision is applied to the facts of the instant case where there was no restraint of trade, no illegal purpose and no illegal conduct, it leads inescapably to the conclusion that the present agreement is legal and enforceable, and that the District Court and Judge Swan, dissenting in the Circuit Court of Appeals, were correct in so holding.

It may well be asked why the majority of the court held the clause to be illegal. The answer is, as we have previously stated, that the majority believed that the rule of the *Carbice, Mercoid,* and related decisions of this Court compelled it to hold such a clause illegal merely because the contract included a patent license as part consideration. By looking at the patent license apart from the rest of the transaction it became possible to say that petitioner was using its patents to secure improvement patents. The majority thought that this came within the doctrine of the *Carbice* cases prohibiting the use of patents to monopolize unpatented materials because it thought those cases signified that there was a special rule for patents which

made it impossible to contract with respect to them as one could with respect to other property.

The Court, after tracing the history of the doctrine of the *Carbice* cases, said (R. 320):

> "It is quite true that upon the sale of its business, had the defendant [petitioner] not included those [its own] patents, it could have made it a condition that the plaintiff [respondent] should assign to it any improvement inventions it might make, and in that way it would have secured the plaintiff as its customer for all such improvements. * * *
>
> "But it is precisely in this that a patent is not like other property; the patentee may not use it to force others to buy of him things outside its four corners. If the defendant gets the plaintiff's patents, it will have put itself in that position, in part at any rate, by virtue of the compulsion of its own patents. We do not see what difference it makes, under the decisions we have cited, whether the plaintiff is compelled to buy all improvements from the defendant by means of a transfer of the plaintiff's patents, or by means of a contract; indeed, the compulsion in the first instance is more absolute than in the second."

As we shall discuss under our next heading, the *Carbice* cases relied on by the majority do not establish or proceed upon a rule which discriminates against patent property or makes it illegal to acquire improvement patents merely because a patent license is included in the agreement. They proceed upon the fundamental public policy that no one, not even a patentee, may monopolize unpatented articles and that the courts will refuse to enforce a patent if to do so would effectuate or aid such illegal practice. We think that the doctrine of these cases does not enter into a determination of a question such as the one at bar where there is involved merely a perfectly legal private business transaction with no attempt to use patents to monopolize unpatented materials or to in any other way violate public policy.

III

The doctrine of the *Carbice* and related cases does not apply.

The doctrine of the *Carbice* cases is that the courts, at least courts of equity, will not enforce a patent when to do so would make effective a practice contrary to law or public policy. In these cases, as in anti-trust suits and other cases involving conflict between the legal monopoly of the patent and the public policy against illegal monopoly and restraint of trade, this Court has had to consider the extent to which conduct otherwise illegal is justified as a proper exercise of the patent monopoly. In resolving the conflict, this Court has held that some otherwise illegal practices are justified* by the patents and some are not.** But this Court has never held that a practice *otherwise legal* became illegal merely because engaged in by a patent owner or because conditioned upon a patent license; nor has it held that patent owners have less freedom of contract than others.*** Yet, very explicitly, that is the holding of the majority of the court below, and it is asserted to be based upon the *Carbice* cases.

This Court in the *Carbice* cases was applying to patent suits the public policy against monopolizing or attempting to monopolize unpatented articles which is embodied in

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* Price restriction held justified, *U. S.* v. *General Electric Co.*, 272 U. S. 476.

** Resale price restriction not justified, *Straus* v. *Victor etc. Co.*, 243 U. S. 490.

Restriction on use after sale not justified, *Motion Picture Pats. Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502; *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436.

Attempted monopoly of unpatented articles not justified. *Standard Oil Co.* v. *U. S.*, 221 U. S. 1; *United Shoe Machinery* v. *U. S.*, 258 U. S. 451; *Motion Picture Patents* case, *supra*; *Carbice* case, *supra*; *Morton Salt* case, *supra*; and others.

*** In *U. S.* v. *Masonite Corp.*, 316 U. S. 265, this Court held at p. 277:

(*Continued on following page*)

and underlies the anti-trust laws.* The court in these cases held that no attempt to extend the monopoly of a patent to unpatented material could be justified and that suits on patents in aid of such an attempt were contrary to the public interest and would, therefore, not be maintained. In the most recent of these cases, *Mercoid* v. *Midcontinent, supra,* this Court stated (p. 670) that "the principle which has led this Court in the past to withhold aid from a patentee in suits for either direct or indirect infringement where the patent was being misused" was that "an important public interest would be prejudiced" if the relief were granted.

There is no such compelling reason in this case. Congress has authorized the grant of improvement patents (35 U. S. C. 31) and their assignment (35 U. S. C. 47). The agreement between the parties was reasonable and appropriate to the business transaction with no injury to the public. There was no thought of using the patents for anything other than their intended purpose namely to protect the specific inventions covered thereby. Irrespective of who owned them, the public would be excluded from their field. That none of the conditions that led to the decisions in the *Carbice* cases exist here becomes even more apparent upon considering their facts.

"Beyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law."

In the *Hartford-Empire case,* 323 U. S. 386, this Court held at p. 432:

"A patent owner is not in the position of a quasi-trustee for the public * * *."

* This same policy, although with a different remedy, has been applied in the anti-trust cases. In *United Shoe Machinery Corp.* v. *United States,* 258 U. S. 451, agreements requiring that unpatented supplies be purchased from United Shoe Machinery Co. were held not to be justified on the theory of a patent license. In *International Business Machines* v. *U. S.,* 298 U. S. 131, the attempt to limit purchasers of a patented tabulating machine to the use of tabulating cards sold by the patent owner was held not to be justified by the patent.

In the *Motion Picture Patents* case*, which came at the end of a series of cases considering the extent to which the patent justifies various trade restraints otherwise illegal, the owner of a patent on a motion picture projector attempted, by notice attached to the projectors, to restrict their use to unpatented film purchased from the patent owner. The suit was brought by the patent owner charging infringement because a user was acting contrary to this restriction. The court held such restriction to be an attempt to monopolize an unpatented article, in itself illegal and not justified by the patent and as a consequence held there was no infringement.

In the case which is generally referred to as the first of this line, namely the *Carbice* case, the owner of a patent on a container brought suit on the patent against a competitor in the sale of unpatented dry ice charging him with infringement of the patent because he sold dry ice to a purchaser who used it in containers allegedly infringing the patent. The court denied equitable relief on the patent,

> "* * * because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention." *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27 at 33.

In *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, the patent covered a process which used an unpatented emulsion and the patent owner brought suit on the patent against a competitor in the sale of unpatented emulsion claiming that the sale of the unpatented emulsion to one who used it in the patented process was an infringement

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* *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, *supra*. Although, as this Court has repeatedly pointed out, the doctrine of these cases rests on the same ground as the *Motion Picture Patents* case, that case was decided by a divided court and it was not until the *Carbice* case that a unanimous approval was given.

of the patent. The patent owner attempted to distinguish from the *Carbice* case on the ground that in the *Carbice* case there was an implied contract by means of a condition printed on the invoices, whereas the Barber Company made no attempt to extend its monopoly by contract or restrictive notice. The Court pointed out that this attempted distinction was without legal significance and denied relief on the patent for the same reasons as in the *Carbice* case, stating that it was

> "* * * not because there was a contract or notice held to be inoperative, but on the broad ground that the owner of the patent monopoly, ignoring the limitation 'inherent in the patent grant,' sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention" (p. 463).

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, the patent covered a machine for depositing salt tablets but did not cover the salt tablets. The patent owner leased the patented machines under a restriction requiring the lessees to purchase the unpatented salt tablets for use with the machines solely from the patent owner's subsidiary which thereby derived its profit. In aid of this business method, the patent owner brought suit on its patent against a manufacturer of salt depositing machines to shut off other sources of machines which could be acquired and used without agreeing to buy the salt tablets from the patent owner's subsidiary. This Court commenting on the violation of public policy by such a practice held (p. 493):

> "The reasons for barring the prosecution of such a suit against one who is not a competitor with the patentee in the sale of the unpatented product are fundamentally the same as those which preclude an infringement suit against a licensee who has violated a condition of the license by using with the licensed machine a competing unpatented article, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, *supra*, or against a vendee of a patented or copyrighted

article for violation of a condition for the maintenance of resale prices, *Adams* v. *Burke*, 17 Wall. 453; *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339; *Bauer & Cie* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8; cf. *United States* v. *General Electric Co.*, 272 U. S. 476, 485."

Although the Court in this case stated that it did not need to hold that such conduct violated Sec. 3 of the Clayton Act, it made clear in the later *Hartford-Empire* case that the conduct was a violation of the public policy of the anti-trust laws saying (323 U. S. 386 at 415) of this case and the *B. B. Chemical* case:

"But those cases merely apply the doctrine that, so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others."

In *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, the patent covered a method of reinforcing insoles in shoe manufacture. The patent owner, instead of practicing the method, chose to make its profits by selling the unpatented materials to manufacturers. In support of this method of doing business, the patent owner sued a competitor who sold similar materials to the same manufacturers and, although it was claimed that the competitor induced the shoe manufacturers to use the patented method in infringement of the patent, this Court denied the right to prosecute such a suit for infringement (p. 497): "in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials."

In *Mercoid Corp.* v. *Mid-Continent Co., supra*, the patent covered a heating system which made use of an unpatented stoker switch. The patent owner and its exclusive licensee did not make or sell the patented heating system or license others to do so; instead they chose to make their profit by selling the unpatented switch with the statement that the purchase of the switch entitled the

purchaser to embody it in the patented heating system. In aid of this method of doing business, suit was brought against the Mercoid Corporation charging that the sale of similar switches by Mercoid intended for use in the patented system amounted to a contributory infringement of the patent. The Court in dismissing the suit held (p. 667)

> "* * * the competition which is sought to be controlled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls."

The Court, at page 665, summarized the so-called *Carbice* cases as follows:

> "In those cases both direct and contributory infringement suits were disallowed on a showing that the owner of the patent was using it 'as the effective means of restraining competition with its sale of an unpatented article.'"

It is thus clear that the doctrine of these cases is based on the illegal acts of the patent owner and the attempt to use the patent to further the illegal objectives. In all of the *Carbice* cases, the fundamental consideration leading to the decision reached by the Court was the need for protecting the public against the existence of monopoly conditions in an area outside the legitimate limits of the patent; that is, in elements which were not embodiments of the patented invention. Here that fundamental consideration is not involved. There is no suggestion of any interest to be considered other than the interests of these two litigants. Also, there is no suggestion that any party to this controversy has sought to extend, or contemplates extending, the protection of any patent beyond its intended and legitimate limits.

The Court of Appeals, basing its decision in this case upon the *Carbice* line of cases, failed to recognize that those cases are totally irrelevant here, irrelevant because they are cases of extension of patent rights beyond their

legitimate limits in an attempt to illegally monopolize unpatented material calling for the interposition of the power of the Court to hold the patent rights within the scope contemplated by the patent laws and thereby protect the public against monopoly conditions in an area of industrial activity which should be free. The transaction here under review involved merely an agreement for conduct of a business for the joint benefit of the parties in no way contrary to the public interest, the patents were involved only as adjuncts to the business, there was no contemplation that the patents would ever be used for other than their intended proper purpose and the rights of the public were not decreased or impaired in any way because, in any event, the public would be excluded from their field no matter who owned the patents.

It is submitted that there is no justification in the decided cases or in the facts of this case for the holding of the majority opinion, that such a holding is contrary to the settled law, and that the questions presented by the petition should be answered in the negative.

CONCLUSION

The judgment of the Court of Appeals should be reversed and the case remanded for proceedings in accordance with the judgment of the District Court.

Respectfully submitted,

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Appendix

"35 U. S. C. § 31. *Inventions patentable.* Any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof, * * * may, upon payment of the fees required by law, and other due proceeding had, obtain a patent therefor."

"35 U. S. C. § 47. *Assignments of patents and applications; evidence of execution.* Every application for patent or patent or any interest therein shall be assignable in law by an instrument in writing, and the applicant or patentee or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent or patent to the whole or any specified part of the United States. * * *"